

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 IO-10 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 GSA-01 FEA-01 INT-05 PA-01 PRS-01 L-02

EA-06 /105 W

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R 202053Z MAY 75

FM AMEMBASSY CARACAS  
TO AMEMBASSY KINGSTON  
INFO SECSTATE WASHDC 8799  
AMCONSUL PARAMARIBO

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EO 11652 NA

TAGS: PFOR, VE, JM  
SUBJ: JAMAICAN MINISTER ALLEN ISAACS - BAUXITE AGREEMENT WITH  
VENEZUELA

REF: A KINGSTON 1790, B CARACAS 4280 C PARAMARIBO 72

D CARACAS A-02

BEGIN SUMMARY. THIS CABLE DEALS WITH ALLAN ISAACS' REFERENCE  
TO GOV COMMITMENT FOR FORWARD SALE OF BAUXITE TO JAPAN. OUR  
UNDERSTANDING IS THAT VENEZUELA INTENDS TO SELL ALUMINUM,  
NOT BAUXITE, TO JAPAN. NEW INSTALLATIONS AND EXPANSION OF EXISTING  
FACILITIES WILL RAISE VENEZUELAN ALUMINUM PRODUCTION TO  
400,000 TONS ANNUALLY BY 1979. A CONSORTIUM OF JAPANESE COMPANIES  
WILL PARTICIPATE IN THE EXPANSION PROGRAM, AND TAKE IN RETURN  
UP TO 160,000 TONS OF ALUMINUM AT A REPORTED SIX PERCENT UNDER  
THE WORLD PRICE. VENEZUELA SIGNED THE BAUXITE AND ALUMINA  
AGREEMENTS WITH JAMAICA IN ORDER TO GUARANTEE A SOURCE OF SUPPLY  
FOR THE NEW EXPANSION. THE GOV IS ALSO REPORTED TO RETAIN  
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AN INTEREST IN SURINAM AS A SOURCE OF BAUXITE. VENEZUELA

PLANS EVENTUALLY TO BUILD ITS OWN ALUMINA INDUSTRY. END  
SUMMARY.

1. OUR UNDERSTANDING IS, CONTRARY TO ISAAC'S STATEMENT,  
THAT VENEZUELA PROPOSES TO SELL ALUMINUM TO JAPAN AND NOT  
BAUXITE. THE BACKGROUND FOR THIS IS BRIEFLY SUMMARIZED AS  
FOLLOWS. MORE DETAIL IS CONTAINED IN REF D.

2. A MAJOR NEW ALUMINUM PRODUCING FACILITY KNOWN AS VENALUM WILL  
BE CONSTRUCTED AT PUERTO ORDAZ. IT IS PROJECTED TO BE COMPLETED  
BY 1979 WITH A CAPACITY OF 280,000 TONS ANNUALLY. VENALUM,  
WHICH WILL REQUIRE AN INVESTMENT OF \$430 MILLION, WILL BE OWNED 80  
PERCENT BY THE VENEZUELAN GOVT THRU THE VENEZUELAN GUAYANA  
CORPORATION(CVG) AND 20PERCENT BY A CONSORTIUM OF JAPANESE COM-  
PANIES. THE JAPANESE INVESTORS WILL BE SHOWA DENKO, MITSUBISHI,  
SUMITOMO, KOBE STEEL, MARUBENI CORPORATION, AND ONE OTHER CO.  
REYNOLDS ALUMINUM WILL MANAGE VENALUM BUT WILL HAVE NO DIRECT IN-  
VESTMENT, ALTHOUGH IT IS REPORTED TO OWN SHARES IN SOME OF THE  
PARTICIPATING JAPANESE FIRMS.

3. THE EXISTING ALCASA FACILITY, OWNED JOINTLY BY REYNOLDS AND  
CVG, WILL HAVE ITS PRESENT PRODUCTION CAPACITY OF 50,000 TONS  
INCREASED IN TWO STAGES OVER THIS PERIOD TO 120,000 TONS.  
THIS WOULD GIVE VENEZUELA A PRODUCTION OF 400,000 TONS ANNUALLY BY  
1979. THE TWO FACILITIES WILL HAVE THEIR OPERATIONS COORDINATED  
BY REYNOLDS, WITH VENALUM PRODUCTION SLATED ENTIRELY FOR EXPORT  
AND ALCASA FILLING DOMESTIC REQUIREMENTS FIRST AND EXPORTING  
ITS SURPLUS. IN ABOUT  
TWO YEARS, WHILE EXPANSION IS UNDER WAY, EXPORTS OF ALUMINUM  
WILL START TO JAPAN AND GRADUALLY INCREASE TO A LEVEL OF 160,000  
TONS ANNUALLY BY 1979. THE JAPANESE INVESTORS WILL BE THE RE-  
CIPIENTS OF THE ALUMINUM, AND THE AGREEMENT CALLS FOR DELIVERY  
AT SIX PERCENT UNDER THE PREVAILING WORLD PRICE AT THAT TIME.

4. EMBASSY COMMENT. LOUIS REYNOLDS OF THE REYNOLDS ALUMINUM  
CO. AND RETIRED GENERAL RAFAEL ALFONZO, FORMER PRESIDENT FOR  
MANY YEARS OF CVG, ARE THE GUIDING LIGHTS BEHIND THE ALUMINUM  
PROJECTS HERE. ORIGINALLY, JAPANESE INVESTORS WERE TO HAVE OWNED  
75PERCENT OF VENALUM, BUT THIS WAS CANCELLED BY PRESIDENT PEREZ  
IN ONE OF HIS FIRST ECONOMIC DECISIONS AFTER ASSUMING OFFICE.  
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THE JAPANESE INVESTORS WERE REPORTEDLY SO MIFFED THAT THEY DECIDED  
TO FORGET ABOUT ANY DEVELOPMENT HERE.

5. REYNOLDS CLAIMS TO HAVE CONVINCED THE JAPANESE TO RECONSIDER  
AND ACCEPT A MINORITY PARTICIPATION ON THE BASIS THAT THEIR PRIME  
INTEREST WAS IN OBTAINING ALUMINUM AT A FAVORABLE PRICE, AND NOT  
IN OWNING THE PRODUCTION FACILITIES. THE JAPANESE AGREED TO THIS  
IDEA, AND AGREED TO WORK WITH REYNOLDS. THE BAUXITE AND ALUMINUM

SUPPLY AGREEMENTS AND VENEZUELAN PARTICPATION IN THE BAUXITE MINING VENTURE (REF B) ARE INTENDED TO GUARANTEE A CONTINUED RAW MATERIAL SUPPLY FOR THE AMBITIOUS DEVELOPMENT PROGRAM. ALTHOUGH THERE ARE SOME REPORTS TO THE CONTRARY, GENERAL ALFONZO INDICATED THIS WEEK TO THE EMBASSY THAT VENEZUELA MAY ALSO FOLLOW UP ON ITS AGREEMENTS WITH SURINAM (REF C) TO INSURE AN ADDITIONAL BAUXITE SUPPLY FROM THAT SOURCE. VENEZUELA ALSO INTENDS TO ESTABLISH AN ALUMINA INDUSTRY AT PUERTO ORDAZ. LOUIS REYNOLDS HAS STRONGLY ADVISED THAT THIS BE DONE RATHER THAN CONTINUE TO DEPEND UPON IMPORTED ALUMINA. REYNOLDS HAS STATED THAT THE DOMESTIC FACILITY COULD BEGIN BY CONVERTING IMPORTED BAUXITE, BUT ULTIMATELY USE LOCAL ALUMINUM-BEARING CLAYS AS THE RAW MATERIAL SOURCE.

6. GENERAL ALFONZO TOLD THE EMBASSY THAT IT IS NOT TOO EARLY FOR DISCUSSION OF DETAILS OF INDIVIDUAL SALES CONTRACTS WITH JAPAN, WITHIN TERMS OF REFERENCE OF PREVIOUSLY DESCRIBED SUPPLY AGREEMENT. THIS MIGHT BE THE ORIGIN OF ISAAC'S REFERENCE TO FORWARD SALES BY THE GOV TO JAPAN.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BAUXITE, ALUMINUM, MINING INDUSTRY, JOINT VENTURES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 20 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750177-0981  
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**Legacy Key:** link1975/newtext/t19750532/aaaabczo.tel  
**Line Count:** 134  
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**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 A KINGSTON 1790, 75 B CARACAS 4280, 75 C PARAMARIBO 72  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 10 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <10 SEP 2003 by KelleyW0>; APPROVED <11 SEP 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** JAMAICAN MINISTER ALLEN ISAACS - BAUXITE AGREEMENT WITH VENEZUELA  
**TAGS:** PFOR, EMIN, ETRD, VE, JM, JA  
**To:** KINGSTON  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006